CHANNEL AREA LOGGERS LTD.

ANNUAL REPORT

1988 - 1989

CHANNEL AREA LOGGERS LTD.

BOARD OF DIRECTORS

Lester Everett - Chairperson

Private Entrepreneur - Member - Berens River Indian Band

Edmond Berens

Member - Berens River Indian Band

Bill Hudson

Councillor - Berens River Indian Band

Henry A. McKay

Fisherman - Berens River

Henry G. McKay

Airport Manager - Berens River

Jack Clarkson

Entrepreneur - Berens River

Brian Dick

Entrepreneur - Winnipeg

Celia Klassen

Farming - Deloraine

Jeff McDonald

Farmer - Minnedosa

OFFICERS

Lester Everett

President

Gordon P. Trithart

Secretary-Treasurer

Harold Lasn

Manager

HEAD OFFICE: Berens River, Manitoba

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APPENDIX - Audited Financial Statements
For Year Ended March 31, 1989

CHANNEL AREA LOGGERS LTD. - ANNUAL REPORT

APRIL 1, 1988 - MARCH 31, 1989

I. INTRODUCTION:

Channel Area Loggers Ltd. is a Crown Corporation which was established in 1973 under the Manitoba Natural Resources Development Act. Its principle objective is to create an economically viable logging operation capable of creating employment and training opportunities for residents of Berens River and surrounding communities.

The Company harvests pulpwood on the eastern side of Lake Winnipeg where a valuable forestry resource exists. There is a serious lack of employment opportunities in this region.

Mechanical harvesters, mainly skidders, are used to harvest spruce pulpwood in eight-foot lengths for sale to Abitibi-Price Inc. at Pine Falls. Abitibi-Price Inc. accepts delivery of the pulpwood at a barge landing on the east side of Lake Winnipeg some 30 miles from the cutting area. The product is used to produce newsprint at the Abitibi-Price Pine Falls mill.

The Company's accumulated loss since inception, in 1973, is $2,375,034. The following is a list of the profit/loss figures for the last 10 fiscal years ending March 31st:

	Profit	Loss
1980		$278,011
1981		173,487
1982		17,262
1983	$38,976	
1984		148,949
1985		235,635
1986		17,901
1987		12,931
1988		217,832
1989		177,512

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The profit/loss figures in the foregoing table show the company's financial position prior to the receipt of annual general subsidies from the Province, but they include receipt of specific subsidies provided to offset development costs. The total provincial assistance for the year ended March 31, 1989 was $177,512. Provincial financial assistance during the three previous years - 1988, 1987 and 1986 were $217,832, $12,931 and $17,901 respectively*.

II. SYNOPSIS OF THE YEAR'S EVENTS:

As a result of an unusually hot and dry spring and summer, production had to be stopped early in the year due to the high fire hazard. Eventually the situation culminated in a fire which burned approximately eight years of prime spruce pulpwood resource. The fire nullified the merits of the comprehensive ten year cutting plan which was completed in the previous year and made the related planned and partially constructed road system useless.

The consequences of the lack of proper management plagued the Company operations until a new Manager was hired in October, 1988.

Non-resident contracts were limited to road construction, the four truckers contracted to haul pulpwood to the landing on Lake Winnipeg and one skidder owner/operator. All of these contractors have been with the Company for many years.

Three new Directors were appointed in January, 1989. They are Celia Klassen, Jeff McDonald and Brian Dick.

* See page 3

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III. REVIEW OF RESULTS:

A. Financial Results

Appended are audited financial statements for the fiscal year 1988-89, prepared by the Provincial Auditor. These statements report a deficiency of revenues over expenditures before operating assistance from the Government of the Province of Manitoba of $177,512 for 1988-89. This figure compares favourably to a loss of $217,832 incurred in the previous year.

Major factors contributing to the poor operational results include a 41.8% reduction from the targeted production goal of 18,500 cords, a disastrous fire which necessitated the construction of a new resource access road and the poor and ineffective management during the first six months of the fiscal year.

The following table outlines subsidies provided by the Province over the past four years.

		1985-86	1986-87	1987-88	1988-89
1.	General Subsidy to Offset Deficiency of Revenues over Expenditures	$ 17,901	$ 8,531	$207,541	$177,512
2.	Specific Subsidies				
	Training		4,400		
	Consulting Fees			10,291	
	Sub-Total		$ 4,400	$ 10,291	$177,512
3.	Total Assistance	$17,901	$12,931	$217,832	$177,512

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The following table illustrates per cord costs for major expenditure categories over the past three years:

Cost Category	1986-87	1987-88	1988-89
Cutters and Contract Wood	$34.93	$39.62	$41.10
Transportation - Wood Haul - Trucks	13.94	15.49	13.18
Company Equipment and Maintenance	2.00	2.35	3.67
Roads	6.49	9.76	12.14
Kitchen and Dorms	1.56	2.82	4.33
General and Administration	11.53	17.08	21.74
Supervision in Bush	.31	.34	.81

The per cord decrease of $2.31 in wood haul costs was due predominantly to a shorter haul distance. The road cost increase of $2.28 per cord was a result of the additional pulpwood access road which was built after the fire rendered the Company's access roads useless. The non-variable per cord cost increases reflect the year's substantial decrease in production. Other major individual variances from the previous year's general and administrative costs were:

- Interest up $21,504 (due to deficit build up)
- Travel and Accommodation up $5,909 (costs associated with hiring a new Manager and Directors travel increase)
- Bad Debts net gain of $14,184 (due to recoveries)
- Insurance down $11,532 (reflection of the general decrease to industry in insurance costs)
- Decrease in Taxes, Licenses and Fees, and Consulting Fees by $7,108 and $13,452 respectively (reflect non-recurring items in the prior year)

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B. Production

The following is a table of the harvested and delivered pulpwood for the past four years:

Annual Pulpwood Production in Cords

For the Years Ending March 31st

	1986	1987	1988	1989
Snipper	7,213	4,554	3,934	5,232
Cut & Skid	8,690	13,546	10,489	5,541
Total	15,903	18,100	14,423	10,773
Inventory at Year End	873	-	-	-

Annual Delivered (Sold) Pulpwood Volume in Cords

As at March 31st

1989	10,773
1988	14,423
1987	18,100
1986	15,360

For the second consecutive year, production has been substantially below the target of 18,500 cords. The situation was compounded during fiscal year 1988-89 by a lack of effective management, fire hazard restrictions imposed during four months of a hot and dry spring and summer, and a devastating fire which destroyed an estimated 150,000 cords of prime spruce in the Company's cutting area. As a result, production was down 7,727 cords from the budgeted projections of 18,500 cords or 3,650 below the prior year's output. As well, the new Manager was not in place until October, 1988.

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C. Related Activities

In 1988-89, the Company employed a total of 22 people whose wages and benefits and supervision costs total $208,407. This compares to the previous year total of $270,575. Additionally, payments to and on behalf of contracts to wood purchasers, hauling and road construction, amounted to $599,046 in 1988-89. This was a considerable reduction from the 1987-88 figures of $748,776. The decrease in production was responsible for the general reduction in total wages. Approximately 30% of total wages were paid to residents of Berens River, while 55% were paid to individuals of Indian ancestry from other areas of the Province.

The Company remained the second largest employer in the Berens River area. Commercial fishing activities employ more local individuals than Channel Area Loggers Ltd.

The Company maintained a commissary and grocery store facility for employees. This facility provided a variety of food products, confectionary items, and winter clothing, and in addition served as a mail order office for skidder and power saw parts.

D. Training

The Company provided on-the-job training to its employees as required. A special "on-the-job" training for the company's bookkeeper (a Berens River resident) resulted in an overall reduction in accounting costs.

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E. Other

The Secretary to the Company's Board of Directors was provided by the Provincial Government. This position provided administrative and management support to the operation and facilitated adequate liaison between the Company and Government and between the Board of Directors and management.

Manitoba

Office of the Provincial Auditor

CHANNEL AREA LOGGERS LTD.

Auditor's Report and Financial Statements
for the year ended March 31, 1989

Manitoba

CHANNEL AREA LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Channel Area Loggers Ltd. as at March 31, 1989 and the statement of revenues and expenditures, the statement of changes in financial position and the schedules of operating expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J. W. Singleton, CA
Assistant Provincial Auditor

June 9, 1989,
Winnipeg, Manitoba.

CHANNEL AREA LOGGERS LTD. EXHIBIT A

Balance Sheet
as at March 31, 1989
(with 1988 figures for comparison)

A S S E T S	1989	1988
CURRENT ASSETS:		
Accounts receivable (Note 3)	$ 63,218	$ 184,212
Subsidy receivable from the Government of the Province of Manitoba	385,053	216,072
Inventories (Note 4)	66,110	71,676
Prepaid expenses	-	515
Total current assets	514,381	472,475
FIXED ASSETS (Note 5)	545,448	508,165
Less accumulated depreciation	345,491	294,357
Net fixed assets	199,957	213,808
GUARANTEE DEPOSIT WITH THE GOVERNMENT OF THE PROVINCE OF MANITOBA	-	900
TOTAL	$ 714,338	$ 687,183

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Excess of outstanding cheques over bank balances	$ 15,551	$ 118,463
Bank demand loan (Note 6)	361,000	195,000
Accounts payable (Note 7)	37,697	73,630
Total current liabilities	414,248	387,093
SHAREHOLDERS' EQUITY		
Capital stock (Note 8):		
Authorized: 35,000 common shares, maximum consideration not to exceed $350,000		
Issued: 30,009 shares	300,090	300,090
TOTAL	$ 714,338	$ 687,183

Approved by the Board:

Director _____

Director _____

EXHIBIT B

CHANNEL AREA LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
REVENUES:		
Pulpwood sales	$ 805,415	$ 1,045,697
Commissary sales	150,430	163,444
Miscellaneous	69,717	20,705
Board charges	28,066	22,205
Total revenues	1,053,628	1,252,051
EXPENDITURES:		
Direct logging costs (Schedule 1)	881,459	1,104,412
General and administrative (Schedule 2)	234,146	246,315
Commissary	120,205	131,683
Total expenditures	1,235,810	1,482,410
	(182,182)	(230,359)
OTHER INCOME		
Gain on disposal of fixed assets	4,670	12,527
Deficiency of revenues over expenditures before operating assistance from the Government of the Province of Manitoba	(177,512)	(217,832)
Operating assistance from the Government of the Province of Manitoba - General subsidy	177,512	207,541
- Specific subsidy	-	10,291
	177,512	217,832
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -

EXHIBIT C

CHANNEL AREA LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
CASH PRODVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Items not involving cash:		
Depreciation	$ 59,043	$ 63,361
Gain on disposal of fixed assets	(4,670)	(12,527)
	54,373	50,834
Net change in non-cash working capital balances related to operations	(77,839)	(211,867)
	(23,466)	(161,033)
INVESTING ACTIVITIES:		
Additions to fixed assets	(54,857)	(97,923)
Net proceeds from disposal of fixed assets	14,335	34,681
Decrease in guarantee deposit	900	-
	(39,622)	(63,242)
DECREASE IN CASH	(63,088)	(224,275)
CASH DEFICIENCY AT BEGINNING OF PERIOD	(313,463)	(89,188)
CASH DEFICIENCY AT END OF PERIOD	$ (376,551)	$ (313,463)
Represented by:		
Bank loan	$ (361,000)	$ (195,000)
Outstanding cheques	(15,551)	(118,463)
	$ (376,551)	$ (313,463)

CHANNEL AREA LOGGERS LTD.

Schedule of Direct Logging Costs
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
INVENTORY AT BEGINNING OF THE YEAR	$ -	$ -
PRODUCTION EXPENSES:		
Contract wood purchases	326,287	384,695
Contract hauling to landing	142,006	223,388
Road construction and maintenance, net	130,753	140,693
Cutters wages and fringe benefits	116,420	186,693
Kitchen and dormitory	46,639	40,603
Repairs and maintenance	39,505	33,926
Depreciation	25,855	28,145
Timber dues	24,052	33,688
Personnel transport	10,007	10,496
Supervision	8,668	4,834
Freight and fuel movement	7,121	9,448
Forwarding to roadside	3,438	5,597
Sundry	708	2,206
Total production expenses	881,459	1,104,412
INVENTORY AT END OF YEAR	-	-
DIRECT LOGGING COSTS, EXHIBIT B	$ 881,459	$ 1,104,412

CHANNEL AREA LOGGERS LTD.

Schedule of General and Administrative Expenses
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Salaries, wages and fringe benefits	$ 83,319	$ 79,048
Interest and service charges	40,776	19,272
Depreciation	33,188	35,216
Insurance	21,670	33,202
Legal, audit and accounting	15,139	18,997
Miscellaneous	8,887	675
Travel and accommodation	8,469	2,560
Mobile home	6,410	7,318
Taxes, licences and fees	5,180	12,288
Consulting fees	4,760	18,212
Office supplies and utilities	4,541	2,876
Communications	4,325	4,761
Directors' fees	3,618	3,842
Bad debts	(6,136)	8,048
GENERAL AND ADMINISTRATIVE EXPENSES, EXHIBIT B	$ 234,146	$ 246,315

Notes to the Financial Statements
March 31, 1989

1. Nature of Operations

Channel Area Loggers Ltd. was established in 1973 under the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation creating employment and training opportunities for residents of Berens River and surrounding communities.

2. Significant Accounting Policies

General:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles.

Inventories:

Pulpwood inventory is valued at the lower of cost or net realizable value based upon the agreed price of deliveries to the purchaser, less an allowance for cullage and shrinkage.

Other inventories are valued at cost.

Fixed assets:

Fixed assets are stated at cost. It is the company's policy to provide for depreciation of fixed assets on the basis shown in Note 5.

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to landing and scaled in accordance with the terms of the sales contract.

Administrative expenses:

Certain administrative expenses, as detailed in Note 9, are provided at no charge by the Government of the Province of Manitoba. These amounts are not reflected in the financial statements.

3. Accounts Receivable

The major categories of accounts receivable are:

	1989	1988
General	$ 53,727	$ 153,681
Government of the Province of Manitoba	10,414	10,291
Contract cutters	(923)	20,240
	$ 63,218	$ 184,212

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1989

4. Inventories

The major categories of inventory are:

	1989	1988
Commissary supplies	$ 2,900	$ 1,489
Parts and supplies	12,262	19,121
Gasoline, diesel fuel and oil	47,128	48,850
Kitchen supplies	3,820	2,216
	$ 66,110	$ 71,676

5. Fixed Assets

The major categories of fixed assets and related accumulated depreciation at March 31, 1989 are:

	Cost	Accumulated Depreciation	Rates
Buildings and Trailers	$ 319,608		
Less: Funded by the Government of Canada	67,298		
	252,310	$ 183,925	10%
Machinery and Equipment	453,228		
Less: Funded by the Government of the Province of Manitoba and the Government of Canada	160,090		
	293,138	161,566	10-25%
Road	273,164		
Less: Funded by the Government of Canada	273,164		
	-	-	
	$ 545,448	$ 345,491	

It is the company's practice to provide for depreciation of buildings, trailers, machinery and equipment under the straight-line basis at the rates shown above.

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1989

6. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

7. Accounts Payable

The major categories of accounts payable are:

	1989	1988
Trade	$ 4,131	$ 19,876
Wage deductions	2,694	17,667
Employees	3,500	-
Government of the Province of Manitoba	27,372	36,087
	$ 37,697	$ 73,630

8. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

9. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $46,000 (1988 - $46,000). The Government of the Province of Manitoba also provides Workers Compensation coverage for Company staff at no charge to the Company.

10. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba.

11. Imputed Interest Cost Information

The following information is supplied in accordance with the request of the Minister of Finance.

The annual borrowing cost to the Government for the average investment of $300,090 in share capital at the weighted average rate of 10.52% paid by the Government in respect of its 1988 debt is $31,600.